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Summary record of the joint meeting of the Second Committee and the Economic and Social Council on lessons learned from the debt crises and the ongoing work on sovereign debt restructuring and debt resolution mechanisms

Held at Headquarters, New York, on Tuesday, 14 October 2014, at 3 p.m.

Co-Chair: Mr. Cardi (Chair, Second Committee) ..... (Italy)
Co-Chair: Mr. Sajdik (President, Economic and Social Council) ..... (Austria)

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The meeting was called to order at 3.10 p.m.

Introductory remarks

1. **Mr. Cardi** (Co-Chair) said that the current joint meeting of the Second Committee and the Economic and Social Council, with its broad agenda, offered a unique opportunity to enrich the debate on sustainable development in all its dimensions and to make a final push towards meeting the Millennium Development Goals, while making a significant contribution to the formulation of the new development agenda.

2. The issue of sovereign debt crisis prevention and management had taken on a new urgency in the wake of the recent global financial crisis. Excessive sovereign debt was a global phenomenon which affected international economic, political and financial stability. International forums such as the International Monetary Fund, the United Nations Conference on Trade and Development, the United Nations, the Commonwealth Secretariat, and non-governmental organizations and academic circles had organized meetings and conducted research on potential debt workout mechanisms, with a view to addressing ongoing concerns about the management of debt restructuring. Various General Assembly resolutions had called for stronger efforts to prevent debt crises, highlighting the need for improved efficiencies and coordination in debt restructuring at the international level.

3. Many valuable lessons could be learned from the debt crises, including the fact that discussions at the international level would be instrumental in dealing effectively with sovereign debt crises, defaults and disputes in the future. Inclusive, transparent and factual discussions among all stakeholders were therefore paramount for devising an effective solution to those problems and fostering economic growth and development.

4. **Mr. Sajdik** (Co-Chair) said that General Assembly resolution 68/202 had called for consideration of enhanced approaches to sovereign debt restructuring and encouraged relevant organizations within the United Nations system to continue discussions on the need for and feasibility of a more structured framework for international cooperation in that area. The current meeting was an important step in that process. It was widely acknowledged that addressing debt problems would be an important component of the financing framework for the post-2015 development agenda. However, sovereign debt crises were a global phenomenon which was not confined to emerging markets or low-income economies, as many developed countries were also struggling with heavy public debt burdens. Such crises could also threaten international financial stability because debt problems in one country could spread to others.

5. There had been progress in the debt sustainability indicators of low-income countries as a result of the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, with many of them issuing bonds on international markets. However, such aggregate indicators masked sustainability problems in individual countries, with new debt issuance raising new sustainability concerns in some of those countries. In addition, some countries, including small States with debt problems, had not been covered by those initiatives. Moreover, the slowdown of the global economy and reduced monetary easing in the United States had added to concerns about the resilience of other emerging markets and developing countries. Responsible debt management policies should therefore be promoted to ensure fair burden-sharing and inter-creditor equity, while at the same time strengthening fiscal consolidation to avoid high government debt-to-gross domestic product ratios, which had a deleterious effect on long-term growth.

6. While there was general agreement as to the need for enhanced approaches to sovereign debt restructuring, there was no consensus among analysts on the way forward. Some believed that improved language in bond contracts and a voluntary code of conduct would address problems related to holdout creditors and other issues, while others felt that they would be insufficient. There were therefore calls for further policy action on debt restructuring and sovereign debt resolution. He hoped that the current meeting would contribute to a better understanding of the policy options that would help to build momentum in order to find solutions for countries that faced such problems.

Panel discussion on lessons learned from policy responses to contagion and debt crises and implications of the changing landscape for debt restructuring

7. **Mr. Kozul-Wright** (United Nations Conference on Trade and Development), moderator, said that the United Nations Conference on Trade and Development (UNCTAD) had a long history of carrying out analyses

and providing policy recommendations in the areas of trade and development, finance, investment and sustainable development. Specifically, as the focal point of the United Nations system on debt issues, it had focused its work in that area on risks to developing countries as a result of global imbalances, and on the need for a robust debt resolution mechanism. Sudden shocks caused by natural disasters, rapid changes in exchange rates or abrupt movements in interest rates had caused many fiscal and debt sustainability problems in developing countries. Moreover, as the Asian and subprime and European crises had demonstrated, contagion posed real challenges in the current interconnected global environment.

8. Public debt in most developing countries and transition economies had undergone structural changes in the past decade. Locally and internationally issued securities continued to account for the bulk of public debt in transitioning and developing countries, whereas bank loans and bilateral debt made up a small proportion of that debt. That had opened new opportunities but also left developing countries vulnerable in times of debt distress because mechanisms for restructuring bonds were slow, leading to costly defaults. Policymakers in developing countries should not forget that private sector debt could quickly become public debt, causing adjustment and policy problems and, ultimately, economic and human distress.

9. In that connection, the process of creating a more equitable environment for debt restructuring required international coordination and collective, inclusive and transparent ex ante dialogue, which would help to determine the legal, political and institutional outcomes of the design of a debt restructuring mechanism and ensure its future effectiveness.

10. **Mr. de Lecea** (Delegation of the European Union to the United States) said that the Monterrey Consensus of the International Conference on Financing for Development had identified sustainable debt financing as an important element for mobilizing resources for public and private investment. Sound macroeconomic policies had strengthened economic fundamentals in most developing countries and emerging markets and made their debt levels more sustainable. As a result, many of those countries had been able to access global markets and benefit from international capital flows. In some of those countries, however, debt had become unsustainable, making restructuring inevitable.

11. The restructuring process followed two patterns for two different groups of countries: those with few, mainly public creditors; and those with access to global capital markets, and hence mainly private creditors. For several low-income, over-indebted countries with financing under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, debt write-offs had given them the fiscal space needed for investment and growth and even allowed some of them to tap international financial markets for the first time ever. According to the International Monetary Fund, aggregate debt write-offs by bilateral and multilateral creditors under both initiatives had reached more than $110 billion in net present value terms. Such developments showed that multilateral cooperation had been effective in the area of State-to-State debt resolution.

12. In the case of countries that raised funds on bond markets, the challenge had been to involve numerous creditors in a market-based negotiation and restructuring process, leading to concerns that coordination among numerous bond holders could endanger the whole debt restructuring process. Those concerns were illustrated by a number of court cases, which also pointed to potential weaknesses in the current framework. The International Monetary Fund had steered a review of sovereign debt restructuring at the global level in an effort to address some of those weaknesses. In that connection, the Fund had recommended the removal of *pari passu* clauses from sovereign bond contracts in order to preclude legal uncertainty in the interpretation of those contracts.

13. The experience of the European Union with sovereign debt problems had shown that the high degree of economic and financial integration among the member States of the Union posed new challenges, which were compounded by the increased complexity of the global financial system. Those challenges had coalesced into a "perfect storm" in 2009-2012, prompting crisis management and institutional reform and forcing the European Union to repair its ship in the middle of that storm. Before the financial crisis, an overreliance on credit rating agencies, which determined the ability of institutional investors to buy and hold sovereign bonds, created dangerous cliff effects which led to further financial vulnerability. As a result, a wide range of regulatory measures and actions

had been taken by global institutions, including the European Union, to reduce the reliance on credit rating agencies.

14. The experience of the European Union had also shown that aggregation provisions in bond contracts were needed to enable most bond holders to change the terms of bonds where necessary. Since 2013, all euro zone sovereign bonds issued with a maturity of more than one year must contain collective action clauses with strengthened aggregation provisions to facilitate debtor-creditor discussions. In the case of the Greek debt restructuring crisis, the exercise was relatively easy from a technical point of view because it concerned mostly debt issued under domestic law. Nonetheless, it also came with substantial financial stability risks and had to be performed as part of a comprehensive crisis management approach that included substantial macroeconomic adjustment and efforts to prevent the crisis from having a contagion effect on other countries. The European experience had indeed shown that prevention was better than cure.

15. Lastly, turning to the lessons learned from recent developments and crises, he noted that sound macroeconomic policies and governance had increased the capacity of many countries to borrow from public and private sources; legal feasibility was not the only criterion to be taken into account before triggering debt restructuring since financial stability risks as unintended consequences of restructuring must also be considered; and sovereign debt restructuring was an extreme solution to be resorted to only in extreme circumstances. Building on those lessons would restore the role of debt financing in mobilizing resources for public and private investment and thus foster growth and development.

16. **Mr. Batista** (International Monetary Fund), speaking in his personal capacity and not on behalf of the International Monetary Fund, said that the Fund had faced risks arising from the case involving Argentina and holdout bondholders or vulture funds in the United States, and had been following developments relating to that case closely, if rather helplessly. In 2013, it had been ready to present an amicus curiae brief to the United States Supreme Court urging it to consider the consequences of the rulings of the New York courts in the case, but intervention by the United States Treasury had led the Fund to desist from that initiative. Three other countries had presented their own amicus curiae briefs to that Court, but the Court had refused to consider the Argentine case and the decisions of the lower instances had prevailed. If, because of litigation by a minority of holdouts or vulture funds, Argentina had been rendered unable to pay the debt that had already been restructured, then a default would have occurred as a result of the intervention of the judicial system of a single country.

17. In 2014, however, the International Monetary Fund had made some progress in dealing with the actual and potential consequences of that situation by participating in an initiative of the United States Treasury that had led to the endorsement by the Executive Board of the Fund of changes to contractual provisions of international sovereign debt issuances, namely, reform of the *pari passu* clause to make it explicit that the interpretation made by the New York courts in the Argentine case was not acceptable; and an enhancement of the collective action clauses to enable an aggregation of those clauses across a series of bond issuances. It was worth noting that even prior to the decision by the Board, a number of countries had already incorporated either or both of those changes into their bond issuances. For example, Ecuador and the Dominican Republic had already incorporated the *pari passu* and collective action clauses, respectively, into their bond issuances. Since the decision of the Board, Kazakhstan had incorporated both of those provisions into its latest bond issuance, which ended up being oversubscribed.

18. Nonetheless, further reform would be needed, in part because many countries still had a large stock of existing bonds featuring the older, weaker collective action clauses or no such clauses at all. Those countries therefore remained vulnerable to copycat litigation by speculative investors in the event of restructuring. Grenada, for example, had already been suffering from one holdout creditor whose legal strategy was inspired by the Argentine litigation. Were Grenada to succeed, it would have to do so in the shadow of the increased leverage of speculative investors in light of the Argentine decision. It was not sufficiently clear whether the Argentine case represented a solid precedent or whether it was so unique that it could not be used easily by vulture funds against other countries. It did appear, however, that the Argentine case was unusual not only because the investors had pursued aggressive litigation, but also because Argentina itself was holding out against them. Nonetheless, the jury

was still out as to the real implications of the court's decision in that case.

19. The United Nations had a role to play in the matter because it was a forum where all countries had a greater voice. General Assembly resolution 68/202, on a sovereign debt resolution mechanism, had been adopted with a majority vote of about 64 per cent, with only 6 per cent of Member States voting against. The 6 per cent of countries that voted against the resolution held almost 40 per cent of the voting power in the International Monetary Fund, while the 64 per cent that voted in favour held 35 per cent of the voting power in the Fund. Hence, that resolution would have been defeated in the Fund owing to the unequal distribution of voting power in that institution. He was not calling for one-country-one-vote system in the International Monetary Fund, but the United Nations had a balancing political role to play in the discussions on addressing the existing stock of debt, and on dealing with the "too little, too late" syndrome in debt restructuring. That syndrome had led to the socialization of losses in debt relief since the private sector often managed to shift the burden of losses to the public sector. The proposed changes to the contractual framework did not address those problems.

20. **Professor Gelpern** (Georgetown University) said that sovereign debt was a bizarre puzzle: unlike other types of debt, it was not directly enforceable, but it also never went away; a sovereign debtor's assets could not be confiscated, nor could Governments go bankrupt and start afresh. Despite that peculiarity, sovereign debt was the lifeblood of the global financial system. Indeed, sovereign bonds worth at least $40 trillion constituted base assets in banking systems and in reserves as collateral in capital markets around the world. Sovereign debt was difficult to gauge because of the contingent liabilities Governments took on by backing sub-sovereign entities, their own banking systems and other socially important parts of their economies. Sovereign debt crises were also always preceded or followed by a financial, banking or other type of crisis, such that their importance was magnified on every occasion.

21. The International Monetary Fund had reported that more than $900 billion of the $40 trillion in bonds worldwide were in foreign-law bonds, over half of which were issued by emerging market Governments. Such bonds were problematic because they deprived Governments of certain debt management tools, particularly in times of distress, and also gave creditors a false sense of security; they were not easy to enforce, yet created the expectation that there was a reliable source of repayment. In the recent case of Argentina, creditors had attempted and ultimately failed to enforce their contracts by forcing the country to pay. However, they ended up causing damage to third parties in the global financial system. Such action amounted to attempted enforcement by spillovers. The result was that the unpaid sums had risen from $12-20 billion to $40-50 billion, with more uncertainty going forward.

22. There were two interconnected sets of problems with sovereign debt, namely, ex ante or debt management problems, and ex post or debt restructuring problems. Concerning the former, determining how much a country borrowed was just as crucial as determining whether the sums would be used for productive or legitimate purposes. The restructuring process could also affect the country's future borrowing capacity. For that reason, the UNCTAD principles on responsible lending and borrowing were important not just for debt management in the future but also as a prism through which debt restructuring should be considered.

23. There were three sets of problems with debt restructuring, namely, efficiency, fairness and legitimacy. Efficiency related to the sustainability of the debt profile and the timing of restructuring, with many countries failing to restructure soon enough. There were also process issues, with disruptions from holdout creditors. Unfair outcomes resulted from fragmentation of the debt restructuring process as various categories of debt and different groups of creditors were restructured in different places, under different rules and at different times.

24. The problem of process fairness was highlighted in cases where dispersed groups of creditors with no direct relationship with one another were restructured without the supervision of a single forum, thus creating the potential for free-riding and unfair burden-sharing, with some creditors and stakeholders subsidizing others. The problem of legitimacy could be embodied in the legitimacy of outcomes, where the outcome of the restructuring might not be accepted by its constituents. A direct corollary of the issue of legitimacy was one of intelligibility. Contrary to allegations, debt restructuring was not ad hoc and was usually highly predictable and remarkably regular for such a decentralized process. However, only those who

were intimately involved with the process knew how it would play out most of the time. The process was unintelligible to its main constituents, namely the people, and also to ordinary creditors. When the process was not well understood, it was perceived as illegitimate.

25. Progress had been made toward solving some of those problems, in spite of political and technical challenges. The emerging sovereign debt restructuring framework was a multi-part modular system which was not based on either contracts or statutes. Contractual reforms were important for dealing with process disruption and free-riding, but they were by definition decentralized and did not, therefore, address the issue of fragmentation. The International Monetary Fund should be commended for its policy reforms, which included contract recommendations, and for efforts to reform its own lending policies and debt sustainability analyses, which would help with efficiencies and burden-sharing. However, that did not constitute a comprehensive system.

26. In the future, it would be necessary to move away from choices between contracts and statutes; the overall framework should be borne in mind and it would be interesting to see how many modules could be devised and made coherent such that they could be accepted by the constituents of debt restructuring.

27. **Ms. Frankinet** (Belgium) said that Mr. Batista had emphasized the importance of the United Nations as a forum where a political balance could be struck. It would be interesting to know what topics or areas on which the United Nations should focus, as a complement to the activities of the International Monetary Fund and other bodies with regard to the restructuring of sovereign debt.

28. **Mr. Batista** (International Monetary Fund) said that the factor common to all debt restructuring problems was the difficulty faced by the official sector, both national and multilateral, in dealing with the overwhelming power of private finance and its capacity to cause instability and even destruction. The United Nations should therefore direct its efforts toward correcting the imbalance between the influence of massive capital movements and the financial sector over the official sector. That was important because the cost of that imbalance was often borne by ordinary citizens of both the debtor and the creditor countries. Restructuring that was "too little, too late" enabled private sector finance to shift claims on problematic debtors to the official sector.

29. The International Monetary Fund would continue to address issues such as the existing stock of debt and the timing of debt restructuring. If it did not happen soon enough, official money provided by the Fund or creditor countries would be used to pay private sector creditors at par, thus allowing them to exit unsustainable debt situations, as in the case of Greece, where there had been a major socialization of losses. The United Nations was not a technical body and should rely on the work performed by bodies such as the International Monetary Fund. It did, however, have an important political role in overseeing that work and ensuring that it was done in a balanced manner for the benefit of the international community as a whole.

30. **Mr. Usui** (Japan) said that it was important to solve the debt problem for the sake of sustainable development, because excessive debt created difficult conditions for developing countries. Japan had been tackling the issue through debt relief and debt reduction and by contributing to discussions on remedies at the International Monetary Fund, the Paris Club, the United Nations Conference on Trade and Development and other forums. Japan had established a debt relief scheme since 1978 and in the last decade it had cancelled 2.2 trillion yen of debt owed by developing countries, mainly in sub-Saharan Africa. Japan had also made it a priority to build the capacity of those countries to manage their debt and introduce macroeconomic policies that would keep them on the right track after debt relief. Japan had been a major player in alleviating the burden of indebted countries through the Paris Club.

31. It would be difficult for Japan to support the establishment of a multilateral debt restructuring mechanism through the United Nations, which would be unworkable especially if it was created hastily, and was not realistic in the near future. Fortunately, other forums existed, such as the International Monetary Fund, where good progress had been made in the area of debt restructuring.

32. **Mr. Normand** (France) said that more information on the significance of the strengthened collective action clauses advocated by the International Monetary Fund would be welcome.

33. **Mr. Batista** (International Monetary Fund) said that traditional collective action clauses required a

super-majority of creditors, typically 75 per cent, but in the event of restructuring, votes were taken on a series-by-series basis, meaning that each bond affected by the restructuring was voted on separately. As a result, speculative investors had been able to buy blocking minorities in specific series and upset the whole process. The solution endorsed by the Board of the International Monetary Fund was therefore to aggregate all the series of the eligible debt for restructuring and to have the option of a single vote among all participating creditors with a super majority of 75 per cent, for example, to be determined on a case-by-case basis as the new bonds were issued. That made it more difficult for speculative investors seeking to pursue litigation to buy a blocking minority in the debt of any given country, provided that country issued bonds that contained collective action clauses.

34. **Mr. de Lecea** (Delegation of the European Union to the United States) said that, in the case of Greece, there had been 17 bond series with a total face value of 6.5 billion euros, but a minority of bondholders had rejected the restructuring. As a result, Greece had had to pay in full in order to avoid a default.

35. **Mr. Alemu** (Ethiopia) said that the most important forum for discussing the issue of debt restructuring in the context of the United Nations was the upcoming International Conference on Financing for Development. Suggestions from the panellists as to what the aims of the Conference should be and what outcomes could reasonably be expected would be welcome.

36. **Professor Gelpern** (Georgetown University) said that the most important thing the United Nations could do was to use its agenda-setting power to keep debt restructuring issues at the forefront of negotiations in other forums. Information on restructuring experiences should also be made publicly accessible and intelligible, possibly through a United Nations information repository.

37. **Mr. Batista** (International Monetary Fund) said that the United Nations could use its many forums, including UNCTAD and other bodies such as the International Monetary Fund, to discuss ways of moving forward on the topic of debt restructuring. It should bear in mind, however, that the International Monetary Fund was a technical body that could provide input, but not necessarily guidance, as its governance and political imbalances made it incapable of adopting a truly multilateral stance.

38. **Mr. Kozul-Wright** (United Nations Conference on Trade and Development), moderator, said that it should also be borne in mind that the International Monetary Fund was also a creditor, a status which could affect its engagement in such an exercise, particularly given the creditor bias built into the current system.

39. **Ms. Vu** Minh Thuy (Viet Nam) said that Professor Gelpern had referred to the unintelligibility of the debt restructuring process, saying that those who were intimately involved in the restructuring process knew how it would play out most of the time. It would be interesting to know who those people were and whether they were politically connected or simply had more experience.

40. **Professor Gelpern** (Georgetown University) said that she had not intended to suggest that there was a conspiracy of the politically connected. Rather, only a handful of law firms had carried out the bulk of debt restructuring and only about ten persons at those firms had the necessary knowledge and experience. The Paris Club had become more transparent but that was a recent development. Unlike the proceedings of a bankruptcy court, restructuring was a decentralized process that empowered repeat players and the small number of people who had the requisite expertise.

41. **Mr. Samudera** (Indonesia) asked what legal obstacles the multilateral mechanism might face, and whether a combination of the contract- and statute-based approaches to debt restructuring could be envisaged.

42. **Professor Gelpern** (Georgetown University) said that legal impediments to a multilateral framework were dependent on the nature of the framework, which should not be prejudged. If the framework consisted of multiple but coherent solutions in multiple forums, there would be no legal impediment. For example, following the defeat of the sovereign debt restructuring mechanism at the International Monetary Fund, the Security Council had immunized Iraqi oil and gas proceeds, thereby protecting a debtor more securely than any normal debtor would be in a bankruptcy. The United Nations therefore had both a legal and a political capacity to guide the agenda.

43. Referring to the second question, her point had been that as long as discussions centred on an opposition between statute- and contract-based approaches to debt restructuring, no multilateral framework could be achieved. The ideal solution was a modular approach. Changes to collective action clauses and the *pari passu* clause were only one set of solutions to a discrete set of problems; they did not even solve all the free-riding problems, for example. The United Nations therefore had a role in keeping track of the overall agenda, identifying problems and solutions, and ensuring that the modular solutions were part of a comprehensive vision.

Panel discussion on ongoing work on sovereign debt restructuring and debt resolution mechanisms

44. **Mr. Trepelkov** (Department of Economic and Social Affairs), moderator, said that the prevention and management of sovereign debt crises had taken on a new urgency since the global economic and financial crisis. External debt problems were no longer confined to developing countries, and debt crises in systemically important countries threatened global financial stability. Following calls for an improved debt restructuring framework since the Monterrey Conference on Financing for Development, the General Assembly had adopted resolution 68/304, entitled "Towards a multilateral legal framework for sovereign debt restructuring processes".

45. However, debt restructuring was a complicated task that could only be achieved by aligning debtor and creditor interests and incentives; preventing holdouts; addressing the "too little, too late" problem; ensuring a speedier return to growth for debtors; providing for legal predictability and fair burden-sharing between debtors and creditors; and ensuring smooth functioning of debt markets and maintaining global stability. During the current panel discussion, participants would exchange ideas on ongoing efforts to improve debt crisis prevention and management, and identify areas where further work was needed to build a resilient financial architecture for sovereign debt restructuring.

46. **Mr. Baqir** (International Monetary Fund) said that the most recent phase of work on sovereign debt restructuring at the International Monetary Fund included a review of the idea of strengthening contractual provisions in international sovereign bonds by reforming the *pari passu* and collective action clauses, which had already been addressed by Mr. Batista. There was a concern that even if the international community endorsed the use of new contractual provisions in issuances going forward, that would not solve the problem of the existing stock of bonds with the old contractual provisions. In that connection, the Fund would be monitoring the pace of adoption of those new provisions and would use various forums, such as the meeting held regularly with public debt managers from around the world, to promote their use.

47. The Fund was also working on the relationship between sovereign debt restructuring and the Fund's lending framework. In a situation of sovereign debt distress, the Fund's lending decision often determined whether a country's debt was restructured and the extent of such restructuring. The implication was that the lending policies of the lender of last resort in the global financial architecture were keys to the decision of a country to restructure its sovereign debt. Yet, the Fund had not changed its lending framework for large-scale financing, known as the exceptional access framework, which it had set up in 2002 when shareholders had become concerned that lending to countries with doubtful debt situations was not helping to resolve the underlying problems, as those countries often deployed official resources to pay off private creditors.

48. At that time, the Fund had adopted criteria that enabled lending at exceptional access levels, namely in very large amounts, only if a country's debt was assessed to be sustainable with a high probability, which meant a higher bar for the assessment of sustainability than for normal lending conditions. If that threshold was not met, the Fund had to ask for upfront debt reduction that would be sufficient to make the country's debt more sustainable with high probability. However, that underlying feature of the 2002 framework mandated action on debt that might be too drastic in cases where the debt sustainability outlook was not clear-cut. In such cases, it made sense to bite the bullet and embark on debt reduction if it was evident at the outset that adjustment alone could not solve the problem. It was, however, questionable whether it was warranted to require upfront debt reduction when the debt prospects were uncertain, putting undue pressure not only on the debtor country but on the creditors as well.

49. In such situations of uncertainty, it would be more efficient to ask creditors to maintain their

exposure rather than inflict the costs of debt reduction upfront. Creditors would be asked to accept a limited extension of maturities with no cut in face value and generally no reduction in coupon, to give the programme time to succeed. The process would be voluntary and market-based, and creditor consultation would be key, with the Fund providing information and analysis. That limited extension of maturities, also known as the reprofiling option, had been used successfully in normal access programmes, most prominently in the case of Uruguay in 2003. The exceptional access framework would thus become more flexible and better calibrated to the spectrum of debt problems that countries faced. As long as the reprofiling was used to support a credible adjustment programme, it would be less destructive to countries' financial systems and have a reduced contagion effect on foreign financial markets. Experience had shown that the impact of restructuring on the financial sector depended on whether it was a deep restructuring inflicted on creditors or a light restructuring in the form of reprofiling in which certain maturities were extended by a few years.

50. In 2010, the Fund had faced the prospect of asking for an upfront debt reduction as a condition for large-scale support to Greece since its prospects for debt sustainability had been uncertain. That had raised concerns about possible contagion to other euro zone countries, and as a result an exemption, known as the systemic exemption, had been created to allow lending without debt restructuring even where there was uncertainty over debt sustainability and a high risk of international systemic spillovers. That exemption had subsequently been invoked not only for Greece but also for Ireland and Portugal. It had served as a quick fix to deal with rigidities in the lending framework, but it was not a long-term solution, since it had revived concerns which the 2002 reform had been meant to address, including moral hazard concerns; it had also raised fresh concerns about even-handedness; and it was not clear whether it even achieved its original objective of mitigating contagion.

51. In Europe, the use of systemic exemptions did not help debtor countries but it did help foreign creditors. Speculation had persisted and only after decisive action had been taken in 2012 to bolster the firewalls of the European Stability Mechanism and the European Central Bank and to restructure debt had contagion finally subsided. More effective approaches to contagion risks were therefore needed and in most cases where reprofiling was called for, countries should manage those risks using the measures routinely deployed by central banks to deal with market volatility, with back- up financing provided by the Fund when needed.

52. The Fund indeed had extensive experience in helping countries with restructuring and its staff had developed contingency measures with the help of central banks to avoid untoward consequences of such restructuring. However, in the future, the systemic threat could be perceived as being so great that any kind of debt operation, including reprofiling, was considered too risky by the Fund's membership, in which case an alternative would be to combine Fund financing with other official resources on concessional terms to render the distressed country's debt situation sustainable with high probability. That would be a more effective antidote to contagion since it would avoid debt restructuring while credibly addressing countries' debt problems.

53. In conclusion, there was a strong case for a reform that would make the Fund's lending framework more flexible by reintroducing the reprofiling option; it would provide for debt restructuring options that were more proportional to the degree of stress in debtor countries; and once the underlying framework had been made more flexible, the systemic exemption could be eliminated and more effective approaches for dealing with contagion risks could be implemented. The Fund would also be working on policies for receiving financing assurances and for dealing with arrears concerning official creditors, and on the process to be followed between a creditor and a debtor in situations where the debtor had already defaulted.

54. **Ms. Yuefen** Li (United Nations Conference on Trade and Development) said that, at a time when more developing countries, including least developed countries, were entering the bond market and the litigation of the century against Argentina was still not resolved, the interest in the development of a debt workout mechanism was understandable. Attempts by the International Monetary Fund to strengthen the collective action clauses and *pari passu* language in contracts were welcome and should not be considered mutually exclusive. It should be borne in mind that the international community aspired to an orderly, timely, efficient and fair debt restructuring mechanism. While the proposals by the Fund would be instrumental in

that regard, there were still several gaps and systemic issues to be addressed.

55. Much of the outstanding sovereign debt contracts in the world did not have the strengthened collective action or *pari passu* clauses and it would take years for those strengthened clauses to be incorporated into new bond contracts. In the meantime, some of the heavily indebted poor countries entering the bond market might still be vulnerable to attacks by vulture funds, which considered those countries easy prey since they had benefited from debt relief which had provide them with the sums to pay the vulture funds, and did not have sufficient resources to defend themselves legally.

56. Furthermore, regardless of how bond series were aggregated, in the case of smaller and poorer countries with few bonds, a single hedge fund could buy 75 or 80 per cent of the bonds; creditor coordination was therefore still a problem. Retroactive action was also not easy because revised clauses could lead to a credit event. The strengthened *pari passu* clause was a step in the right direction but it was only one of the boilerplate clauses in debt contracts. There was no guarantee that, in the future, confidentiality, force majeure or warranty clauses would not be given innovative or extraordinary interpretations by certain judges. Nonetheless, many of the systemic problems that remained, including the fragmentation of legal forums, the differing decisions that could be rendered on the same issue by different courts, the uneven abilities of judges to understand the intricacies of bond contracts, and the "too little, too late" approach, could not be addressed by strengthening certain clauses.

57. As the focal point of the United Nations on debt issues, UNCTAD had a track record of analytical work on debt workout, which had intensified with the onset of the global financial crisis. Since the adoption of the General Assembly resolution on debt restructuring, UNCTAD had focused its work on debt crisis prevention and crisis resolution. With financing from the Government of Norway, it had set up a project on the promotion of responsible sovereign lending and borrowing, and a working group that brought together multilateral financial institutions, including the International Monetary Fund, the Paris Club, the World Bank Group and development banks, as well as non-governmental organizations, academia and the private sector. The working group had formulated a set of principles focusing on debt crisis prevention, some of which dealt with debt workout mechanisms. The process had been inclusive and transparent and 13 countries had already endorsed it.

58. In 2013, UNCTAD had devoted its efforts on the development of a debt workout mechanism, after having organized a high-level meeting on the topic in 2011 which had triggered a discussion in the international community following the global financial crisis. A debt workout mechanism was a cross-cutting issue with legal, economic, political and social strands. In that connection, UNCTAD had once again set up an inclusive working group involving a wide variety of actors, which had identified the main problems facing debt restructuring mechanisms, mainly creditor coordination, the variety of legal forums, fragmentation, procrastination and efficiency. It had identified a number of principles which could guide better debt restructuring, including the principles of legitimacy, impartiality, transparency, good faith, and debt sustainability. Its experts had prepared background papers for each principle and refined them in the light of discussions in the working group. The group had then prepared the processes of debt restructuring, identifying five types of debts and five groups of creditors, and taking into account the problems with the current debt restructuring mechanisms. The draft would be completed and submitted soon.

59. In conclusion, there was a great deal of interest in the introduction of a debt workout mechanism, even a hybrid one. It was important for developed and developing countries to complement each other in that effort. UNCTAD would work with all stakeholders to establish an orderly debt restructuring mechanism that would benefit both creditors and debtors and the international community as a whole.

60. **Ms. Schneider** (Department of Economic and Social Affairs), accompanying her statement with a digital slide presentation, said that she had been working on a project intended to foster mutual understanding among stakeholders, namely Governments, international organizations, the private sector and civil society, in identifying areas where sovereign debt restructuring required policy action. Considerable progress had been made in that effort, because the private sector had initially denied that there were any problems, but had now come to a better understanding of the problems surrounding debt restructuring. The strategy adopted had been to deconstruct the sovereign debt restructuring

mechanism and to allow participants to propose options for each of those issues and to determine whether they could be addressed through a market-based approach or a statutory approach.

61. The sovereign debt restructuring system was fragmented: there was debt to multilaterals, debt to official creditors, debt to commercial creditors and bond debt. Moreover, multilateral debt could not be restructured, although an exception had been made for heavily indebted poor countries covered by the Multilateral Debt Relief Initiative. The International Monetary Fund did not have the wherewithal to call for sovereign debt restructuring. At best, it could play an advisory role or influence the incentive structure for sovereign debt restructuring through its lending-into-arrears policy.

62. As for negotiations under the Paris Club, they covered only members of the Club, yet in recent years non-Paris Club bilateral debt had become very important in official-sector lending. Furthermore, Paris Club agreements required comparable treatment for other creditors and many countries that had benefited from the Heavily Indebted Poor Countries Initiative had been the target of litigation by vulture funds because they did not receive comparable treatment. A related topic was that of debt to commercial banks, which was covered by an informal gathering known as the London Club, which lacked an oversight body and was not efficient for commercial bank restructuring.

63. As for bond debt, the International Monetary Fund proposals for the amendment of bond contracts and contractual technology to prevent holdouts and for a narrow interpretation of the *pari passu* clause to allow for equal ranking but not rateable payments among creditors would minimize holdouts but would not eliminate them altogether. Indeed, in the case of small economies with a few bond issues in small amounts, it was easy for vulture funds to hold out and delay debt restructuring.

64. On the issue of litigation, the hand of holdout creditors had been strengthened by the amendments to sovereign immunities legislation in the United States, the United Kingdom and other countries to exclude commercial activities from sovereign immunity; a court judgement which had declared that sovereign debt was a commercial activity and therefore excluded from sovereign immunity; and the jeopardy rule which precluded the purchase of debt at a discount in order to use it for litigation.

65. It was widely accepted that the Argentine litigation was a game changer that would affect future debt restructuring by strengthening the position of holdout creditors, and that illustrated the legal gaps in the debt restructuring architecture. There was a great deal of diversity in the types of restructurings offered. Debt restructurings with few or no nominal haircuts tended to move very quickly, but then required multiple restructurings, which had an impact on growth and debt sustainability in the long run and did not change the volume of debt. For deeper haircuts, often requiring creditor cajoling, negotiations were often protracted, leading to uncertainty.

66. There was evidence that default and restructuring appeared to be negative for debt and positive for growth, meaning that when a country defaulted, as in the case of Argentina, it grew very rapidly after the default and debt burdens went down. There was also evidence that there was a strong reduction in growth before a default. There was therefore a need to find policies that prevented a fall in growth before that default. Hence, the costs of restructuring were very high in terms of output, trade losses, and access to credit, higher spreads, and the like.

67. One of the achievements of the expert group meetings organized by the Department of Economic and Social Affairs on debt restructuring was that they had led to a greater understanding of the issues involved between the private sector and the official sector. Previously, the private sector had measured the success of a debt restructuring scheme by the percentage of bond holders who participated in the scheme and how quickly it was completed, and how well the instruments performed after the debt restructuring, whereas the official sector was more concerned with the cost to the local economy, the residual debt burden, and the speed at which the country could return to a sustainable debt and growth trajectory.

68. Furthermore, for the private sector, the problem of procrastination related to the time needed to reach a settlement, whereas for the official sector, procrastination related not only to the delay before debt restructuring was initiated but also to the time it took to reach a settlement. Delays were also disastrous because they gave vulture funds more time to purchase

debt at a discount then hold out for high gains. The next expert group meeting would look at the lending-into-arrears policy and the related amendment being considered by the International Monetary Fund. The good faith criterion that was added to that policy gave an advantage to lobbying by the private sector, but the creditors too should be required to meet the same good faith criterion.

69. A number of options were being considered for sovereign debt restructuring in the future, including the upgrading of contractual technology in order to improve the voluntary market-based approach; a statutory solution to address holdouts by minimizing litigation risks in the euro zone; a regime that combined the voluntary, contractual and statutory approaches; a statutory regime; and an informal platform for creditor debt exchanges.

70. The expert group was also working on a number of option which had not been considered by the International Monetary Fund, including the introduction of standstills in bond contracts; the idea of sovereign *cocos* (contingent convertible bonds), as put forward by the Bank of England and the Bank of Canada, which would automatically extend the maturity when a country received official sector liquidity assistance and thus acted as a standstill; and the amendment of the Fund's Articles of Agreement in order to allow for standstills.

71. Two other options being considered for improving the current architecture were the introduction of ex ante structures for creditor committees with an oversight body and a governance structure, to avoid the experience in Latin America where there had been much insider trading and misuse of information by those committees; and the adoption of the consultancy approach with soundings by legal advisors.

72. The best of the contractual approach could be combined with some kind of statutory arrangement similar to the dispute resolution mechanism of the World Trade Organization, involving three stages for orderly debt restructuring. The first stage would be purely voluntary, market-based but time-bound. If a solution was not found within that time, a second stage, again time-bound, would be for a panel of experts to guide the negotiations. If that failed, then the final stage would be for a panel of judges to pass final judgement which would be binding on all. There would be no possibility of litigation or holdout. The International Monetary Fund would play a role by hosting the dispute resolution mechanism, but the experts and others would be independent. Another option the private sector was interested in involved a neutral and informal body for creditor-debtor coordination.

73. Lastly, to alleviate the problem of the poor quality of data, a debt registry could be set up to ensure that the data used for monitoring debt sustainability was of higher quality. More work was also required to understand the relationship between regulation and sovereign debt restructuring and how the former might delay the latter.

74. **Mr. Shcherbakov** (Ecuador) said that the lack of regulation and supervision of the financial system had generated banking empires that were too big to fail and therefore had the power to make ever riskier financial transactions because they knew that States and their citizens would ultimately have to pay for defaults to prevent the collapse of their economic system. The adoption of General Assembly resolution 68/304, entitled "Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes", had marked a step forward in the effort to establish a multilateral legal framework for sovereign debt restructuring processes with a view to enhancing the efficiency, stability and predictability of the international financial system. It was unfortunate, however, that the resolution had not been adopted by consensus.

75. Nonetheless, the majority of Member States had indicated their willingness to continue working constructively to address the remaining challenges in that area, for example on global financial and monetary regulation and cooperation, including on the negotiations in the run-up to the third International Conference on Financing for Development. He hoped that the Conference would achieve an ambitious outcome, since its focus would be on assessing progress made in the implementation of the Monterrey Consensus and the Doha Declaration; identifying obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome those constraints; and supporting the implementation of the post-2015 development agenda.

76. To that end, developing countries must be provided with assistance for long-term debt relief and sustainability through enhanced financing policies that would enable them to invest more resources in poverty eradication. The greatest challenge for humankind in the twenty-first century was to ensure the supremacy of human beings over capital. Societies should dominate, rather than being dominated by, markets. The market was a good servant but a terrible master. His Government believed in societies with a market, not market societies where people and society itself were mere commodities.

77. **Mr. Torrington** (Guyana) said that it would be interesting to know whether there was a likelihood of copycat litigation, following the Argentine case. He asked what a real fix to the problem of sovereign debt restructuring would look like. In his region, the Caribbean Community, that problem had been very significant and small, poor countries had been the target of vulture activities.

78. **Mr. de Aguiar Patriota** (Brazil) said that it was important to capture the essence of the current substantive discussion and to use it as input for future discussions on debt restructuring.

79. **Ms. Schneider** (Department of Economic and Social Affairs) said that, as a complement to the effort of the International Monetary Fund, work was being done to formulate safety clauses to address the problems of small States that issued bonds in small amounts, which made it easy for investors to build up blocking positions. With regard to copycat litigation, it was generally believed that the Argentine case was a game changer and that it would affect future debt restructuring because it had strengthened the hand of holdout creditors. However, there was also the belief that courts in the United Kingdom would to be more sanguine than those in New York when it came to interpreting the *pari passu* clause if they were faced with a case on the topic. There was even a suggestion that, for that reason, most sovereign bonds should be issued under United Kingdom law in the future.

80. As for the real fix to the problem of sovereign debt restructuring, there were several proposals on the table which should be examined more thoroughly. Nonetheless, any solution would require a buy-in by all stakeholders and future work should be aimed at seeking a consensus among them.

81. **Ms. Yuefen** Li (United Nations Conference on Trade and Development) said that, after the Argentine litigation had been taken up by the circuit court in New York, there had been copycat litigation involving the debt restructuring for Grenada, and more such cases were expected. That court's ruling had taken away the financial incentives for debt restructuring because if creditors waited long enough they could secure full payment with interest. Tools for addressing that problem included moral suasion and foreign relations. Of course, other legal forums could be resorted to, but the international community did not have a real fix for the problem. Indeed, the consensus was that future debt restructuring would be more complicated.

82. In response to the comment from the representative of Brazil, she said that all relevant debt restructuring documents and presentations from the current meeting would be made available on the UNCTAD website and, in the future, the outcomes of discussions on debt restructuring mechanisms would be shared with delegates for their consideration, but not as official documents of the General Assembly.

83. **Mr. Baqir** (International Monetary Fund), responding to the question about a real fix to the debt restructuring problem, said that the Board of the International Monetary Fund had considered the options of a treaty-based approach and a non-treaty-based approach to debt restructuring in 2003 and had opted for the latter. It had subsequently reaffirmed that position in 2013 and 2014. The problem with the treaty-based approach was that the bulk of international sovereign bonds issued by emerging markets were issued under the jurisdiction of only two countries, namely, the United Kingdom and the United States. If those countries opposed a treaty, it would not solve the collective action problem or address holdouts or vulture funds, because the signatories did not include the countries under whose laws such bonds were issued. In regard to sovereign debt restructuring, the Fund had to follow the policies approved by its Board and would continue to make lending decisions under its current policy and legal framework until it was reformed.

The meeting rose at 6.10 p.m.

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Held at Headquarters, New York, on Thursday, 30 October 2014, at 10 a.m.

Co-Chair: Mr. Cardi (Chair, Second Committee) ..... (Italy)
Co-Chair: Mr. Oh Joon (Vice-President, Economic and Social Council). . (Republic of Korea)

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Ministry for Foreign Affairs
Republic of Korea

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Mr. Alemu, Permanent Representative of Ethiopia to the United Nations
Mr. Bapna, World Resources Institute
Mr. Coppard, Development Initiatives

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The meeting was called to order at 10.10 a.m.

Introductory remarks

1. **Mr. Cardi** (Co-Chair) said that during its high-level segment in July, the Economic and Social Council had provided guidance on the complex issues surrounding the global partnership for development and successor arrangements for Goal 8 of the Millennium Development Goals (MDGs). The Second Committee would carry forward the work of the Council. Consultations among Governments and a wide range of stakeholders from civil society to the private sector were giving shape to the new agenda to be adopted at the United Nations Summit for the adoption of the post-2015 development agenda scheduled to take place in New York, in September 2015. The magnitude of the visionary post-2015 framework required a comprehensive implementation strategy.

2. It was imperative to establish a new global partnership for development, building on lessons learned in the implementation of Goal 8, and also moving beyond them. The partnership should overcome the old dichotomies and introduce a paradigm shift based on the key principles of ownership, shared responsibility, respective capacities, mutual trust, transparency and accountability.

3. The global partnership should engage all countries in accordance with their respective roles and responsibilities, while promoting cooperation and multi-stakeholder engagement. It should be conceived as a platform for mobilizing resources, knowledge and capabilities, public and private, domestic and international. The interaction between national policies, domestic resources and external public and private financing deserved special attention.

4. The process leading up to the Conference on Financing for Development in Addis Ababa in July 2015 and other United Nations and international processes could help define the global partnership. The Open Working Group on Sustainable Development Goals had provided guidance on means of implementation as part of the proposed set of sustainable development goals. The Intergovernmental Committee of Experts on Sustainable Development Financing had put forward options for mobilizing the necessary financing and other means of implementation to support the post-2015 development agenda. As part of that process, and in preparation for the 2016 Development Cooperation Forum, the Republic of Korea and the Department of Economic and Social Affairs would organize a High-level Symposium in the Republic of Korea in April 2015. The Symposium would advance the discussion on the role of development cooperation in the implementation of the post-2015 agenda.

Presentation on "A renewed global partnership for development and successor arrangements for Millennium Development Goal 8"

5. **Mr. Shing Dong-ik** (Ministry for Foreign Affairs, Republic of Korea) said that the importance of the Development Cooperation Forum in the post-2015 context could not be overemphasized. The Forum was the global multi-stakeholder venue for policy dialogue on development cooperation that engaged all relevant stakeholders. It had attracted a remarkably high-level and diverse group of experts to promote greater effectiveness and inject new momentum into the post-2015 agenda. It had offered a new development cooperation narrative that included more and better official development assistance (ODA) in the form of effective mobilization and use of development resources. The narrative highlighted policy coherence and identified renewed global partnership as vital to successful implementation of the next development agenda.

6. The theme of the present meeting was highly relevant to the achievement of the new goals and to the High-level Symposium scheduled to take place in April 2015, in preparation for the 2016 Forum. Hosted by the Government of the Republic of Korea, the Symposium would draw international attention to development cooperation at the height of intergovernmental negotiations on the post-2015 development framework and prior to the International Conference on Financing for Development. The Symposium aimed to facilitate discussion on how development cooperation could support and harmonize collective efforts towards realizing the next development agenda. Eventually, such discussion would lead to further consideration of key issues, such as effective means of implementation, forging an inclusive global partnership, strengthening the monitoring and accountability framework and mobilizing unprecedented levels of resources. Close consultation between the Republic of Korea and the Department of Economic and Social Affairs would

determine the main theme of the Symposium, which was expected to capture all significant discussion points and raise awareness among relevant stakeholders.

7. The Government of the Republic of Korea had consistently focused on how the international community could effectively implement the goals and targets of the post-2015 development agenda. Effective mobilization and use of both existing and innovative resources to maximize development effectiveness were important issues. The building blocks of the post-2015 agenda should include a renewed, inclusive and strengthened global partnership and a participatory monitoring and accountability framework. The global partnership aimed to create an enabling environment at the national and global levels and to improve effectiveness by engaging the private sector, parliaments, academia and civil society, as well as Governments. The renewed partnership would evolve with the changing development landscape and take into account the emergence of various development partners to bring about truly transformative changes.

8. The success of the agenda would depend in part on establishing and maintaining an effective participatory monitoring and accountability framework. In that regard, the high-level political forum on sustainable development would prove a useful platform in monitoring and reviewing progress as well as holding development actors to account. Effective coordination between the high-level political forum and other accountability processes such as the Global Partnership for Effective Development Cooperation would help to avoid duplication, generate synergies and contribute to mutually beneficial partnership in the post-2015 era. The Global Partnership could form the basis of such a framework in the post-2015 era. Its findings and analysis could be widely shared with other relevant global monitoring platforms. The Development Cooperation Forum could play a guiding role in establishing practical approaches to a renewed global partnership, a strengthened accountability framework and the provision of political leadership in development cooperation.

9. The Republic of Korea would remain a principal contributor to that activity by hosting the 2015 Symposium. By inviting Governments and key development partners, the Symposium would seek to collect diverse views and provide critical inputs to the intergovernmental negotiations on the post-2015 agenda. Member States and other development partners were thus requested to step up participation. The Republic of Korea had, over the past five years, recorded the highest rate of increase in ODA among members of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD), which it had joined in 2009. The Republic of Korea hoped to become a vital bridge between developed and developing countries and to improve the quality of its ODA by actively participating in the discussions on global ODA governance. It had taken initiative with regard to the Seoul Development Consensus for Shared Growth as Chair of the Group of 20 (G20) Summit in 2010. It had hosted the 2011 Fourth High-level Forum on Aid Effectiveness in Busan, Republic of Korea, and taken a leading role in launching the Global Partnership for Effective Development Cooperation in 2012. It would host the annual Global Partnership workshop in Seoul in November 2014.

10. Hosting the 2015 High-level Symposium was in line with the commitment of the Republic of Korea to global ODA governance. The country had made continuous efforts towards the successful establishment and institutionalization of the Global Partnership. The principles of the Global Partnership, which were enshrined in the outcome document of the Forum held in Busan, and included national ownership, a focus on results, inclusive development partnerships, transparency and mutual accountability, could serve as a useful reference for the Forum.

11. The time had come to focus on the importance of political leadership and commitment, and to rally the intellectual capacities of development actors to build a global consensus on the post-2015 development agenda in the lead up its adoption in September 2015. The Symposium would offer an opportunity to refine the promises of the post-2015 development agenda and to reaffirm the commitment of Member States to a coherent development policy approach for an ambitious, inclusive and transparent post-2015 agenda.

Panel discussion

12. **Ms. Adams** (Moderator) said it was generally agreed that Goal 8 was not fit for purpose. The problem of unfulfilled commitments had been described by the United Nations System Task Team on the Post-2015 United Nations agenda as possibly the weakest link in the MDG chain. The MDG Gap Task

Force report examined failures relating to ODA, trade, investment, debt and technology transfer.

13. The report of the Secretary-General on a life of dignity for all (A/68/202), which had also expressed concern with regard to unmet commitments, included means of implementation in one of the four building blocks for shaping the post-2015 agenda and identified possible transformative approaches for multi-stakeholder partnerships as a supplement to implementing a global partnership for development.

14. The criticism voiced by civil society organizations from the beginning with regard to Goal 8 had in fact helped to shape it. Goal 8 had been added as an afterthought to the first seven goals announced in 2000, based on OECD approaches to development goals at the time. A number of civil society organizations were sympathetic to the importance attached to means of implementation in the sustainable goals discussion of the Open Working Group and were working on the inclusion of strengthened approaches to means of implementation. The targets of proposed goal 17, which referred to the global partnerships for sustainable development, were being examined closely by various organizations, the United Nations system and Member States. Of the 62 targets, 19 were under goal 17. However, most of the targets thus far were already agreed language and did not appear fit for purpose.

15. **Mr. Coppard** (Development Initiatives) said that the MDGs represented an unprecedented international agreement to pursue global progress on poverty eradication and social well-being. The new, emerging approach was broad, holistic and ambitious. Whereas the MDGs had aimed to halve poverty, the new goal aimed for zero poverty, leaving no one behind. As a first step, the new goals aimed to end US$1.25-a-day poverty by 2030, and then, over the long term, to end poverty everywhere, in all its forms. That was a serious challenge, as it would become increasingly difficult to reach those ever deeper in poverty. Another shift in the new goals was from an aid-led agenda to an all-resources agenda. MDG financing had been focused around ODA, suggesting that development outcomes could be bought. The post-2015 agenda recognized both the scale of the challenge and the multiple resources and actors needed to address it.

16. The new agenda represented a shift from separate development and environmental agendas to a single, unified framework, with coordinated implementation. The implication of those shifts was that ODA must focus ruthlessly on poverty. Spread too thin, it would not work to its comparative advantage as the only financial resource that could be exclusively directed against poverty. By focusing on who and where the poor were and on the drivers of their poverty, ODA could also address concerns of sustainability and political and environmental fragility. ODA was not homogeneous, but consisted of a broad range of tools and modalities. The challenge was to use the appropriate tool for each context.

17. ODA was much better at targeting poverty than were other sources of international financing. Compared to other types of aid, larger volumes of ODA went to countries with large volumes of poverty. Foreign direct investment (FDI) was three times the size of ODA, but two thirds of it went to only 10 countries. However, targeting of ODA was still far from perfect. While most of the largest recipients of ODA were countries with large numbers of people or large proportions of the population living in poverty, there were countries without such poverty that nevertheless received significant amounts of ODA. And in countries where poverty was highest, ODA per poor person was in fact lowest. ODA was less than $100 per poor person per year in 20 countries, yet those same countries accounted for more than 75 per cent of the world's poor people. In 33 countries that accounted for just 1 per cent of the world's poor, ODA was equal to $1,000 per poor person per year. With regard to the depth of poverty, meaning how far below the poverty line people were, ODA per poor person was lowest where poverty was deepest. For example, in the Democratic Republic of the Congo, where 88 per cent of the population lived in poverty, the average income was less than half of the $1.25-per-day poverty line, and ODA was just $44 per poor person per year.

18. However, donor agencies with a formal mandate to end poverty targeted their ODA more effectively towards the poorest countries as compared to agencies that lacked such a mandate. Thus, establishing poverty elimination as a mandate of ODA could greatly improve targeting of development assistance.

19. The extent to which Governments could find the capacity and the private sector could mobilize for impact on the poorest people would be key to achieving the post-2015 goals. There was a need to work with other resources as well as ODA. Developing

countries' combined domestic government expenditures on poverty eradication were over $6 trillion, more than three times the flows of international resources to developing countries for that purpose. More than half of developing countries had seen such spending grow at 5 per cent or more per year since 2000. However, 83 per cent of the global poor lived in places where spending was less than $1,500 per capita per year — the equivalent of $4 per day per person. One third of the world's poor lived in countries where Governments spent less than $500 per capita per year on poverty eradication. ODA should have a role to play, but current allocations were skewed towards countries with greater domestic resources. ODA per poor person was lower in those countries where government spending per person was lower. Countries where domestic resources were lowest would experience the slowest growth in domestic resources targeting poverty over the next 15 years, such that national institutions in those countries might not be able to finance post-2015 goals. In those countries, ODA allocation needed to prioritize mobilization and effective use of domestic resources.

20. ODA also had a role to play in countries where resources were growing more rapidly. The challenge in those countries was to broaden and deepen existing services. ODA could play an important role in countries where constraints were more technical than financial. That might not require large-scale resource transfers. The key was targeted cooperation. It was necessary to recognize, in working with various partners, cases in which different types of ODA would be most effective. Interestingly, 96 per cent of people in poverty lived in countries that were either politically fragile or environmentally vulnerable. Nearly 260 million people in poverty lived in 13 countries classified as both politically and environmentally vulnerable. Addressing those wider issues was fundamental if investments to end poverty were to have sustainable outcomes. ODA would play an important role in driving investments to places such as those 13 countries.

21. The role of ODA and the way it was allocated must evolve to provide effective support for a more ambitious and holistic post-2015 agenda. Within a broadened agenda, there was an acute need to target the poorest. If such an approach was formalized in a mandate for ODA, allocations could be more effectively targeted. A measure was needed to assess the extent to which the poorest had benefited from any investment. The challenge was to identify the appropriate assistance for each context: ODA no longer meant simply buying development outcomes, but involved mobilizing other resources and catalysing impacts for the poorest as well as tackling challenges directly. Targeting the bottom 20 per cent meant driving investments across all three pillars of development, thereby enhancing the effectiveness of spending in those areas by focusing on the impact they had on the very poorest. That was essential if gains in fighting poverty were to be sustainable.

22. **Ms. Adams** (Moderator) said that poverty eradication clearly required a serious approach to ODA. The idea of linkages between ODA and domestic resources was an important one in that regard.

23. Hosting the third International Conference on Financing for Development, scheduled to take place in Addis Ababa in July 2015, came with major responsibilities. The Conference would take place at an important time, just before the September 2015 Summit.

24. **Mr. Alemu** (Ethiopia) said that the current historical juncture called for highly enhanced and transformative cooperation among countries and peoples. Enlightened national interest, paving the way for effective development cooperation, was the only realistic way to ensure the future. That conviction underlay the United Nations Conference on Sustainable Development (Rio+20) and the consensus that poverty eradication was the biggest global challenge. There was global capacity to address the various challenges and to ensure the means of implementation needed to meet the new goals. Although some progress had been made towards achieving the MDGs, not all commitments had been met and greater passion for cooperation and political will were needed to address common challenges. Poverty eradication, climate change and caring for the environment were crucial. The global cooperation development landscape had changed, making a notable difference in the progress of a number of countries, with South-South cooperation becoming significant.

25. Progress in addressing means of implementation was key to the success or failure of the post-2015 agenda. The Intergovernmental Committee of Experts on Sustainable Development Financing had indicated the general way forward, but its work needed to be

completed. That was the promise of the third International Conference on Financing for Development. There was no doubt that international public financial resources would remain critical, especially with respect to helping eradicate poverty in least developed countries. ODA would remain indispensable for those countries, including to build capacity for domestic resource mobilization. Most of the least developed countries had enormous difficulties with respect to tax administration, and their rate of saving was low. Thus, discussion of resource mobilization meant little for such countries. International public financial resources had a unique advantage for the least developed countries, in that ODA could complement the advantages of FDI. FDI and the international private sector had enormous resources available. Ethiopia, having embarked on a major transformation requiring massive financial resources, had decided to explore entering the international bond market.

26. Ethiopia was a good example of South-South cooperation complementing North-South cooperation. Its improved infrastructure was largely the result of South-South cooperation. However, no less significant was the enormous progress in the social sector, and on the MDG health targets, which could be attributed largely to support from traditional partners. The third International Conference on Financing for Development would be a good opportunity to assess the complementary nature of South-South and North-South cooperation. Domestic resource mobilization, which had the advantage of ensuring ownership, must be considered a critical source of development financing. Domestic resources made it possible to ensure that development processes tallied with national policy and strategy. That was also one of the advantages of South-South cooperation, a sector that rarely resorted to conditionalities and had greater sensitivity to the demands of States.

27. However, domestic resource mobilization faced numerous impediments in many developing countries, including in the private sector. Transformation hinged on the growth of that sector. Domestic public financing for development, especially for massive projects, required active public sector involvement. There were opportunities for complementary public-private partnership, for which trust was critical. External partners were a must, but domestic partners should receive priority. ODA was key to capacity-building to control illicit outflows of resources. Philanthropists such as Bill and Melinda Gates were also becoming critical for development.

28. It was crucial to have an accountability framework for the obligations assumed in the developed and developing world.

29. **Ms. Adams** (Moderator) said that the United Nations had some experience in working with the private sector and philanthropists in multi-stakeholder partnerships. Accountability was particularly important in such relationships. Further insights into projects that involved the private sector would be appreciated, as the United Nations was exploring further engagement with that sector. Issues of risk assessment were very different for the United Nations than for private sector organizations. The latter could decide not to get involved in difficult or hazardous regions, whereas the mandate of the United Nations required it to remain active and involved in such situations. Additional comments on how partnerships between the United Nations and private sector organizations might evolve in that regard and on the criteria and different responsibilities involved in such relationships would be appreciated.

30. **Mr. Coppard** (Development Initiatives) said that the private sector was not a homogeneous actor, but a multitude of actors working at different levels. A disaggregated understanding of the private sector in developing countries and in the international sector was needed, as was information about the private actors involved. Then it would be possible to understand the focus of engagement between the private sector and development assistance.

31. The amount of ODA that went to the private sector was surprisingly low. ODA funding to core investments that helped develop the private sector represented only about 3.5 per cent of total ODA. The amount of ODA that went to public-private projects accounted for one quarter of 1 per cent of gross ODA financing. Large financial investments were not necessarily the answer to development: rather, development actors should identify the linkages between various components of the private sector in developing countries, and not only at the international level. Then public-private partnerships could be created.

32. **Mr. Alemu** (Ethiopia) said that attracting investment was of the utmost importance. Host

countries must take ownership of their strategies and policies. Supporting the statement that investors did not make up a homogeneous group, she said that it was all the more important to target the desired investors. Short-term investment was to be avoided, especially for the least developed countries, such as Ethiopia. The focus should be on long-term investments.

Interactive discussion

33. **Mr. Torrington** (Guyana) said that out of roughly 190 countries in the world, 30 qualified as the most needy and 30 were in a position to provide significant ODA. That left 130 in the middle range. It was important to develop a viable poverty eradication agenda for those countries and to determine the kind of support needed. In the Caribbean Community (CARICOM), there had recently been decreasing levels of concessionality, which pushed economies further into debt. The affected countries had been fairly stable and followed the rules, but remained outside of the focus of the agenda.

34. **Mr. De Lara Rangel** (Mexico) said that with regard to the role of cooperation for development assistance in the post-2015 agenda, ODA continued to be a catalyst for development. It was therefore important to determine how to boost ODA. The role of traditional donors should be stressed and mechanisms used to assess development assistance in order to see whether developing and developed countries had adhered to agreed principles. Quantitative participation in ODA had increased. ODA architecture was changing slightly, and international development institutions were aligning themselves accordingly. He would welcome the speakers' views on the global partnerships, keeping in mind the integral nature of the Monterrey Consensus, especially as it related to the systemic approach. Seeking other ways of mobilizing resources was also important.

35. **Mr. Motter** (Inter-Parliamentary Union) said it was not entirely clear that issues of financing had been part of the discussion on sustainable development goals. The question arose as to whether development efforts were ultimately tied only to economic growth or focused more on creating conditions for human well-being. That was not to suggest that growth would not take place in developing countries, but the agenda was universal, and the discussion must take place in both developed and developing countries. A focus on well-being could impact approaches to aid and other flows of finance, qualitatively and quantitatively. He wondered whether catalysing aid for the private sector would lead to supporting large-scale infrastructure development over locally based and owned infrastructure development. Could it mean supporting FDI even if the impact overall remained questionable, or should it involve supporting small and medium enterprise development in developing countries? That was a hugely qualitative distinction.

36. Furthermore, while much of the debate had focused on catalysing the private sector through ODA, it was important to bear in mind that no private sector money should or would be used to support the public sector. Investing more public funds and international aid to support governance institutions and the entire machinery that led to development in the public sector was fundamental. There was not enough of that kind of support, especially with regard to parliaments. Further comments on balancing the tension between investing more ODA into the public sector as opposed to the private sector would be appreciated.

37. **Mr. Alemu** (Ethiopia) said that he sympathized with the need to focus on the qualitative aspect of investment. Ownership was critical. If the countries concerned had strategy and policy that reflected the needs of the country and the people, then external support would have to take that into account. Whether the investment was directed at megaprojects or small enterprise, everything must be developed within the context of the country's strategy and the policy. That was what Ethiopia wanted and how the country expected its partnership with the international community to develop. It was critical for ODA to focus on the places where poverty was greatest. That was the commitment made in Rio+20. Of course there were other needs that would have to be considered as well, such as those raised by the representative of Guyana. But the international consensus was that efforts should be focused on those countries suffering from extreme poverty.

38. **Mr. Coppard** (Development Initiatives) said that the focus should shift from countries to people. ODA should focus less on eligibility at the national level and should better target pockets of poverty within countries. Poverty was now a subnational issue, with disparities greater within countries than between them. Compared to other resources, ODA was not large. Approximately $150 billion gross ODA was going to approximately 150 different countries. It was a scarce

resource and there were other resources available, including other forms of official financing. If the focus was to be on leaving no one behind, then ODA should continue to focus on the poorest, wherever they were.

39. It was true that a target of $1.25-a-day was incredibly modest. A suitable level of well-being could not be achieved by meeting that target, but it was a starting point. Income-based targets had limitations, but they had political feasibility and could be well understood. As one milestone was achieved, another could be set.

40. The definition of well-being and of appropriate indicators constituted a much broader discussion. There was potential for more investment in the public sector, but that needed to be a nationally driven agenda, not an imposition by the international community. To say that the public sector was better at achieving outcomes than the private sector was simplistic; both had a role to play, depending on the context. While the private sector had been very effective in some cases, such as in the water sector, in others, the public sector had proven more effective. A desired outcome should be defined; only then would it be possible to identify the appropriate mechanism.

41. **Mr. Cardi** (Co-Chair) said that the question of well-being versus growth was closely linked to the debate involving domestic resources. With some external assistance, national and local resources could be strengthened in Africa: the international community must continue to help find a way to break the cycle of poverty. Specifically, more should be done to strengthen local capacity and thus shift the development paradigm.

42. **Mr. Bapna** (World Resources Institute) said that it was difficult to determine how financing, means of implementation and other commitments in the areas of development and climate change should be combined for the best results. There remained much confusion with regard to development finance, on the one hand, and climate and environmental finance, on the other. If the environmental and climate finance came from ODA, it was unclear whether that would impinge on the unfinished business of poverty eradication.

43. It had been widely recognized that choosing between tackling poverty and promoting development, on the one hand, and tackling climate change and protecting the environment, on the other, was a false choice. The Intergovernmental Panel on Climate Change had recently stated that climate change would create new poor by 2100 in both developing and developed countries, jeopardize sustainable development, become an additional burden on those in poverty and force poor people from transient into chronic poverty. If climate change went unaddressed, it would have a significant impact on the ability to eradicate poverty. It was not just a matter of avoiding the costs of inaction. If climate change and other environmental challenges were not addressed, it would be difficult to address poverty. There were not only costs to be avoided, but benefits to be reaped: positive actions to protect the environment could also address poverty and promote growth. Referring to a report published by the Global Commission on Economy and Climate Change, he said that many measures being taken to fulfil Rio+20 commitments and address environmental challenges would also help reduce poverty, regardless of climate-related benefits. The Open Working Group had done an excellent job of recognizing such win-win opportunities and integrating sustainability into the development agenda. It was at the heart of the targets, which was a profound shift from the MDGs.

44. With regard to means of implementation and financing, significantly greater levels of public finance must be mobilized for development and for climate and the environment.. Countries had committed to 0.7 per cent of gross national income (GNI) for ODA. ODA currently amounted to about $135 billion, the highest level ever, according to the Development Assistance Committee of OECD, but that figure represented only about 0.3 per cent of GNI. On average, donor countries had earmarked 0.09 per cent of gross national income for ODA to least developed countries in 2012. The commitment related to development finance was thus still unmet.

45. The international community was still far from reaching the target of $100 billion from public and private sources for developing countries by 2020, to which the international community had committed at the United Nations Climate Change Conference, held in Copenhagen in 2009. In the early years, there had been good progress: some $35 billion had mobilized and some $30 billion committed, but it wasn't clear if that was truly new and additional. The Green Climate Fund was intended to be the main mechanism to channel climate finance to the developing world. The current target was $10 billion for initial capitalization

of the Fund, with $2.8 billion received so far. Considerably more public funding would be needed. However, public funding alone would not address poverty eradication or climate change; much larger flows of private capital must also be shifted.

46. Funding relating to development, environment and climate change, respectively, should be kept separate because each was linked to different types of commitments. When new financing was presented, it must be possible to indicate its source. Once funds flowed into a country, however, it was equally important to decide how each type of funding should be applied.

47. A huge proliferation of new environmental and climate funds were creating parallel systems and increasing countries' transaction costs. Ways must be found to achieve greater country ownership and use of recipient country systems for all such resources.

48. To bring together the Monterrey and Rio financing tracks and address means of implementation, harmful and inefficient fossil fuel, and agriculture and water subsidies must be eliminated. Estimates of the cost of those subsidies exceeded $1 trillion. Streamlining them would free up resources better used domestically for other types of investments. It was crucial to protect the poor in that process. Adequate cash transfer and social protection mechanisms must be put in place before subsidies were removed. In addition, a price must be put on environmental externalities, especially carbon. Tax systems taxed useful factors, such as labour, rather than negative factors, such as pollution. Taxing negative factors led to optimal economic outcomes and generated income. According to the principle of common but differentiated responsibilities, a carbon tax in the developed world could raise significant revenues for the developing world to address environmental issues. An explicit commitment was needed to capitalize the Green Climate Fund and fulfil the pledges made in Copenhagen in 2009.

49. Use of country systems should be accelerated to ensure coherence in development, climate and environmental finance. Furthermore, metrics needed to better capture sustainability considerations in private-sector and government accounts. Integrated reporting was needed in the private and public sectors. That would integrate environmental and social considerations into economic and financial metrics. Significant opportunities for new multi-stakeholder partnerships on issues that straddled poverty eradication and sustainable development, such as sustainable energy for all, could serve both the Rio and Monterrey platforms. Keeping environmental issues separate in terms of content and means of implementation from the rest of the agenda had been one of the mistakes of the MDGs and should be avoided in future.

50. **Mr. Mutati** (Member of Parliament, Zambia) said that monitoring and accountability frameworks and mutual learning were key to the issues being discussed. In his country's experience, the international community was very poor at delivering development. Development had occurred in the donor countries owing to internal rather than external actions. Development was a local action that must be based on fiscal prudence and discipline. In Zambia, Parliament had insisted on less investment in words, promises and visions, with more emphasis on enhancing capacity to align resources with established priorities. There was a structural deformity in the national budget process, in that 80 per cent of the total budget was earmarked for consumption expenditures, leaving 20 per cent for growth and tackling poverty. That partially explained the fact that over the past five years, whereas the budget had expanded by 100 per cent, levels of poverty had remained static at 60 per cent. The country was consuming far more resources than it was generating.

51. Historically, the entire budget process had emphasized inputs. Parliament met annually for a compliance exercise to examine the budget, yet was unable to evaluate whether or not it had been executed properly. It was hoped that the budget bill currently being negotiated in Parliament would contain checkpoints, and that the various stakeholders, including members of Parliament, would participate more actively. There was also work ongoing to strengthen financial regulations, and to adopt sanctions. According to the last report to the Auditor-General, 3.4 per cent of the gross domestic product (GDP) had been wasted expenditure, but there had been no sanctions, because the current framework lacked the capacity to execute them. Parliament was therefore pushing for amendments to the legal framework, so that sanctions could be applied.

52. It was clear that domestic resources and development cooperation resources would remain inadequate. The Ministry of Finance would have to

rely on borrowing, and there must be controls on how credit was procured and used. A debt strategy was needed, as was a bill that regulated the actions of the Ministry of Finance with regard to debt. The systems must be overhauled so that they focused on outputs rather than processes. Development cooperation must shift from an emphasis on perfecting principles to developing measurable objectives. If development cooperation was effective, it should ultimately render itself obsolete. Its continued existence meant that it was not as effective as it should be. Mutual accountability must depend on sound local systems and monitoring should shift from input to outcome assessment. Members of Parliament must continue to provide critical checks and balances to ensure that the budget had an impact on poverty as it grew. Donors and Governments were guilty of that structural deformity because they continued to provide the resource, while the incidence of poverty remained static.

53. **Ms. Leiva Roesch** (Guatemala) said that a shift in approach was needed everywhere, not only in Governments and intergovernmental bodies. The sustainable development goals agenda was universal, with poverty eradication at its heart; it also sought to reduce inequality and address climate change, among other global priorities. It was important to determine what was needed to achieve the sustainable development goals and the post-2015 agenda.

54. The role of technology transfer in the post-2015 agenda must also be decided. The Open Working Group had sought to shift from a silo approach to a more interpretive approach and to start building certain enablers into the framework; regrettably, lack of time had prevented completion of that task. As part of the design of the agenda, it was important to think about means of implementation for each goal and the benefits of having a means of implementation per goal rather than one comprehensive goal on means of implementation.

55. **Ms. Moya** (Colombia) said that eradication of poverty, including extreme poverty was indispensable for sustainable development. ODA needed to be directed to the neediest countries, but also to the middle-income countries, where 70 per cent of the needy were concentrated. The $1.25-a-day threshold reflected an agenda of minimum approaches rather than the real development challenges most countries faced. Other, multidimensional types of indicators were needed, for both poverty and development.

56. A single holistic funding framework that brought together the three dimensions of sustainable development was needed, but it was also essential to build on Goal 8 of the MDGs and to correct errors such as the existence of different quantitative indicators. Miscalculations would have to be corrected to guarantee effective commitments based on the pledges made. The global partnership for development went far beyond development. It was a question of correcting systemic issues and shortcomings in the international system. Views on the need to tackle systemic shortcomings in the new global partnership for development would be appreciated.

57. **Ms. Adams** (Moderator) said that the $1.25-a-day threshold had been mentioned earlier as a step along the way, or a starting point. However, during the MDG process, it had been observed that such markers sometimes became the end point rather than the beginning.

58. **Ms. von Steiger Weber** (Switzerland) said she agreed that the traditional focus on accountability should be expanded to reflect the growing role of a broad range of actors. The post-2015 era offered opportunities to acknowledge and integrate the role of the local authorities, as well as those of parliaments and citizens. The views of the other panellists and Member States on the role of local authorities would be welcome.

59. **Ms. Adams** (Moderator) said that there was pressure to come up with measurable targets. However, sufficient data were lacking, and some areas that needed to be addressed could not be quantified. It was important to avoid a situation in which goals were redefined by inadequate targets because certain aspects could not be measured.

60. **Mr. Bapna** (World Resources Institute) said that the Open Working Group had dealt quite thoughtfully with the issues of enablers and means of implementation. The notion of cross-cutting means of implementation targets that addressed individual goals was appealing. Means of implementation targets were not very specific, and experience showed that such targets were less likely to get real traction. It was true that not everything important could be quantified. Nonetheless, it was necessary to be tough-minded about what was most strategic and to define enablers as

specifically as possible. It was unlikely that means of implementation targets would be ready by September 2015. They must be sharper and more focused to avert a situation of broken promises and to ensure that development cooperation was effective.

61. It was indeed important to focus on people rather than countries. The $1.25-a-day threshold would not necessarily guarantee poverty eradication; there was a lot of evidence that people who earned above that amount often fell below the threshold in a crisis. It was necessary to think about ODA modalities and how they could be differentiated in fragile States, low-income countries and countries that were near the bottom of the middle-income range. The question was not where to focus ODA but how it should be programmed, depending on the context.

62. The debate on the role of the private sector in the post-2015 agenda lacked precision, in part because the private sector was not monolithic. Moreover, the private sector would have different roles and targets depending on the situation, ranging from virtually no role to that of primary driver.

63. Measures must be put in place to make sure that the private sector was held accountable. The enabling policy environment was significant in that regard. One necessary measure was a tax and regulatory regime that addressed externalities, so that adequate payment was made to host Governments with regard to private sector engagement in extractive industries. In that context, research and development, innovation systems and the ways in which ODA and development finance could help catalyse private sector investment in new growth sectors must all be considered.

64. **Ms. Adams** (Moderator) said that if public sector resources did not increase, private sector participation was almost inevitable. Tax evasion, however, amounted to trillions of dollars lost, more than double the estimated cost of implementing the SDGs. Whether or not the private sector was seen merely as a source of additional finance, criteria as to how public-private partnerships actually helped to meet the goals set by the United Nations and the Member States had not been established. Moreover, it was possible that, because some parts of the agenda were more easily financed than others, certain goals had been achieved while others had been neglected.

65. Some Member States joined partnerships rather than contributing to United Nations funds or programmes that addressed specific issues. One of the reasons might be that partnerships responded more directly to their priorities or were more flexible. That had an impact on accountability and reporting and related to the inadequacy of financing for the United Nations development system.

66. **Mr. Coppard** (Development Initiatives) said that he agreed that a shift from inputs to outcomes was needed; so, too were complementary, clear measures, such as growth. An institutional, technological transition was needed to focus more on the poor. Substantially more investment in collecting data on poverty was required. Such data collection was costly, but provided substantial benefits in terms of better targeting resources and their impact. Dramatic shifts in poverty figures were often the result of methodological tweaks in measuring poverty rather than through actual changes in poverty levels.

67. The conceptual shift to a focus on poor people required clear mandates with appropriate accountability mechanisms. Agencies that had a clear mandate focused 80 per cent of their ODA on countries with above-average levels of poverty, whereas agencies without a clear mandate focused less than 30 per cent of their ODA on those countries. A two-pronged approach was needed to place poor people front and centre in the decision-making process concerning resource allocations and in gathering data to identify who and where poor people were.

68. **Mr. Mutati** (Parliament, Zambia) said that unless human issues were addressed, the international community would not make inroads against poverty. About three years earlier, a decision had been taken to improve access to clean water in southern Zambia. The donor had engaged principally with the Government, as donors generally did, and less with the local authorities and the people. Some 10 to 15 per cent of resources had been used for workshops and conversation, and an agreement had been reached to drill boreholes. Because the local people depended on cattle and migrated to where pasture was available, they had abandoned the water sources provided. Unless those involved in development engaged with the targeted beneficiaries and listened to their expressed needs, development cooperation would continue to be wasted on ineffective projects. Poverty must be tackled from the bottom up. The continuous engagement of central Government on poverty issues had led to the current situation, with poverty remaining static.

69. **Mr. Bapna** (World Resources Institute) said that development cooperation needed more direct access to local authorities and communities. There was a debate in multilateral development banks and funds such as the Green Climate Fund as to whether those institutions could lend directly to the local authorities without going through the central Government. Currently, most institutions needed permission from the central Government and a counter-guarantee to lend at the local level. It would be interesting to discuss, within the context of the post-2015 agenda, whether a more concerted effort should be made to enable them to lend directly at the local level.

70. **Mr. Alemu** (Ethiopia) said that in Ethiopia an enormous devolution process was under way, with local authorities empowered to decide on virtually everything, including budget allocations. However, if external support came directly to the local level it would have the inadvertent effect of undermining national institutions. Weak national institutions had been a major problem in Africa, and had had an impact on issues of security and stability.

71. **Mr. Bapna** (World Resources Institute) said that most countries lacked the power at the subnational level to raise capital in international markets or to borrow from international financial institutions. Adequate local capacity to manage those resources must be ensured. The best way to reach the local level was an important question in the context of ongoing poverty eradication efforts.

72. **Mr. Motter** (Inter-Parliamentary Union) said he agreed that the $1.25-a-day threshold should be the starting point rather than the end goal. Furthermore, it was known that countries that reached a certain minimum GDP per capita could accomplish all human development goals when measured in terms of human well-being. The international community needed to rethink how it could invest in organic growth that aimed at well-being. Such investment did not require the same infrastructure, approach or economic model as investment that aimed for economic growth.

73. With regard to the tension between public and private sectors, the human rights approach always applied. It was acceptable for the private sector to take the lead, but it had to be on terms negotiated with the Government, and the Government must always guarantee human rights.

74. **Ms. Adams** (Moderator) said that choices about the nature of the international enabling environment would have to be made. Perhaps the global partnership for development was less central than the need for a more robust accountability mechanism. Such a mechanism would provide a framework for implementation, and a way to measure the extent to which parties contributed positively in partnerships. Accountability was very important.

75. **Mr. Gass** (Department of Economic and Social Affairs), summarizing the discussion, said that the meeting had been intended as a prelude to the Symposium, to determine the subjects to be discussed there in preparation for the third Conference on Financing for Development and other meetings. The membership was eager to take on a change of perspective for an ultimately ambitious and visionary outcome.

76. Participants had recalled the need to rectify the deficit in meeting commitments. That would require more passion and political will. The importance of national Governments and the need for State ownership of development cooperation had also been mentioned. For poverty eradication to be effective it must focus on the poorest and on the root causes of their poverty. By doing so, actors would overcome the false dichotomy between sustainable development and poverty eradication.

77. Development was based on local action. There must be a shift from the discussion of principles to the delivery of outcomes. The moderator had stressed the importance of the accountability and review process, to ensure that the new partnership for sustainable development was ultimately beneficial for all.

78. There would be many other meetings within the context of the third International Conference on Financing for Development and the September 2015 Summit. Access to technology, capacity-building and other enablers were important, as were the appropriate measurement tools. With the right review mechanisms and agreements, combined with the necessary will, sustainable development and poverty eradication could become a reality.

The meeting rose at 12.45 p.m.